

# **NEW JERSEY DIVISION OF TAXATION**

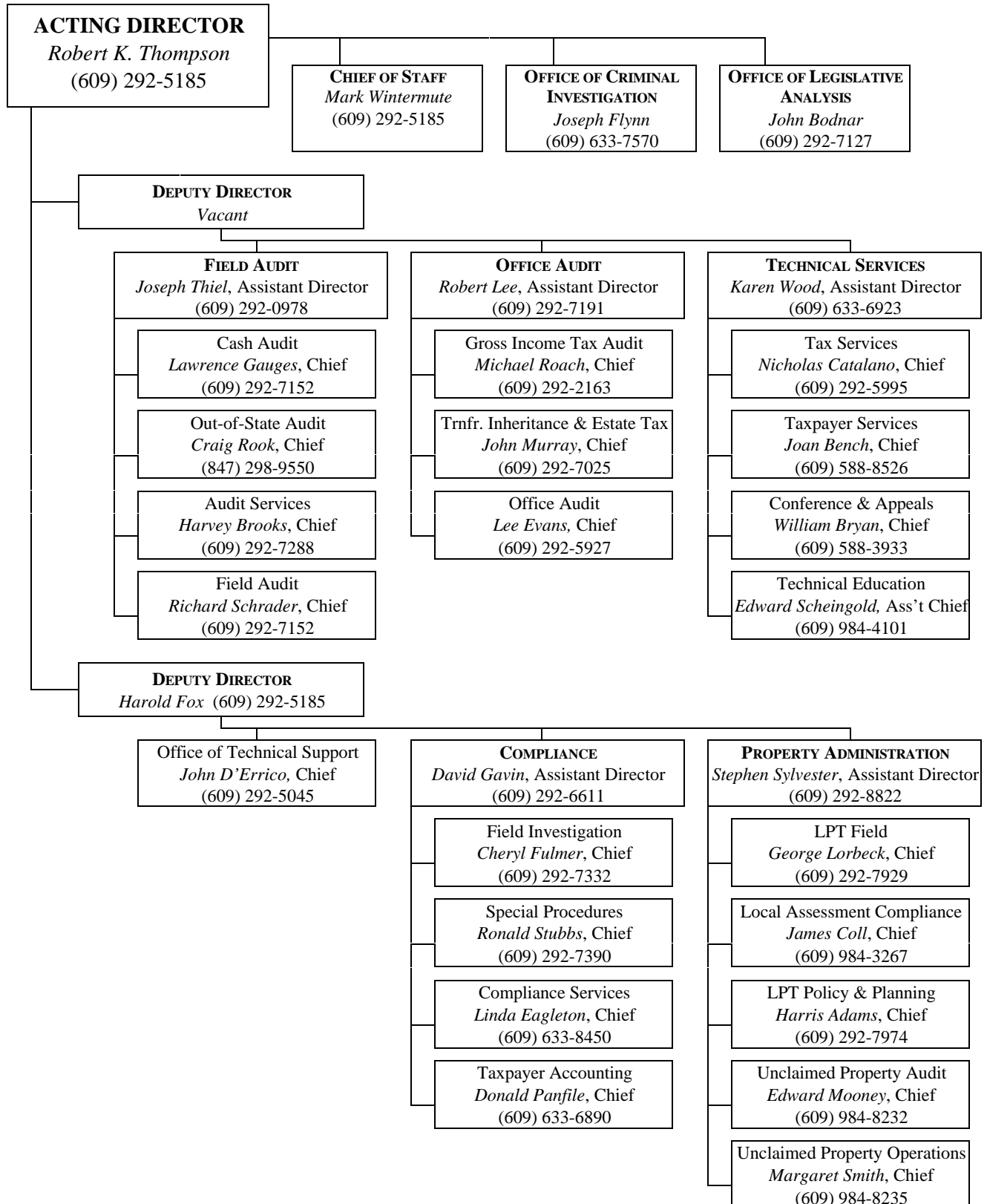
## ***MISSION STATEMENT***

*The mission of  
the Division of Taxation  
is to administer  
the State's tax laws  
uniformly, equitably, and efficiently  
to maximize State revenues  
to support public services;  
and, to ensure that  
voluntary compliance  
within the taxing statutes  
is achieved  
without being an impediment  
to economic growth.*

# DIVISION OF TAXATION HIGHLIGHTS

- NJ TeleFile program saved the State \$250,000 during the 1996 tax year. The program has been expanded for the 1997 tax year.
- Second year phase in of the property tax deduction/credit benefit.
- Division of Taxation developed a new exemption certificate, Form ST-3NR, Resale Certificate for Non-New Jersey Vendors, for use by qualified out-of-State vendors picking up merchandise in New Jersey or drop shipping merchandise to a New Jersey address.
- New Jersey accepts Uniform Sales & Use Tax Certificate - Multijurisdiction issued by the Multistate Tax Commission.
- Pilot program instituted to now accept New Jersey sales tax quarterly returns through the internet.
- Receipt of e-mail correspondence sent to the Division continues to steadily increase.
- New Jersey S corporation tax rate reduced to 0.5% for S corporations with annual net income of \$100,000 or less for accounting years ending on or after July 1, 1998.
- Mandatory employer trip reduction program repealed.
- New Jersey Redevelopment Authority created to assist in the revitalization of New Jersey's urban areas.
- War veterans' organizations permitted to conduct certain income-producing activities and retain property tax exempt status.
- Division received \$260,448.54 from the Federal Bureau of Investigation as part of New Jersey's share of Federal forfeiture money stemming from Operation Red Daisy, a joint Federal-State investigation of the bootleg motor fuel industry.

# DIVISION OF TAXATION ORGANIZATION



## FIELD AUDIT

This Activity is responsible for ensuring tax compliance and the collection of outstanding tax liabilities through the examination of information provided on tax returns and by auditing records at the taxpayer's place of business. This Activity consists of three branches: Field Audit, Out-of-State Audit and Audit Services.

### Field Audit

The Field Audit Branch audits businesses to determine if they have complied with their obligations under New Jersey's tax statutes. The audit examination of the taxpayer's accounting records is comprehensive and covers all taxes administered by the Division. In addition, as part of several interstate exchange agreements, select information may be obtained for other taxing jurisdictions during the performance of the audit.

Field Audit Activity was significantly impacted by the hiring of 44 additional cash auditors in fiscal year 1997. This hiring complemented the first hiring of 50 cash auditors in fiscal year 1996.

Under the cash audit program initiated in 1996, special emphasis has been placed on the audit of approximately 12,000 retail liquor licensees. The audit of the liquor industry is expected to continue for several years. During fiscal year 1997, an additional 44 auditors were dedicated to the audit of pizzerias, gas stations and other types of cash businesses yet to be identified. The cash audit programs are intended to strengthen compliance and collection efforts as well as level the playing field for compliant businesses. Under this program, there were 1,547 completed audits generating \$50.8 million in audit assessments during fiscal year 1997.

During the 1997 fiscal year, the 17 regional audit groups completed 4,277 audits. The completed audits, which included the cash initiative, generated assessments of \$97.3 million. The distribution of the assessments by tax is as follows:

Tax	FY 1996	FY 1997
Sales & Use	\$ 79,797,999	\$46,651,430
Corporation Business	52,812,354	19,562,877
Business Personal Prop.	44,963	80,561
Gross Income	3,442,324	4,346,598
Litter	718,718	712,784
Miscellaneous Other	5,868,224	2,875,931
Total Tax	\$142,684,582	\$74,230,181
Penalty and Interest	51,038,735	23,103,542
Total Assessments	\$193,723,317	\$97,333,723

### Out-of-State Audit

The Out-of-State Audit Branch has the responsibility to perform field audits for all the New Jersey taxes on all taxpayers whose accounting records are maintained outside of the State. Currently the Division has offices in Chicago (Illinois), Anaheim (California), and Norwalk (Connecticut) with one auditor working in Dallas (Texas).

Completions of audits by the Out-of-State Audit Branch for fiscal year 1996 and fiscal year 1997 were 327 and 220 audits respectively which generated assessments totaling \$46 million and \$17 million respectively. The distribution of assessments by tax is as follows:

Tax	FY 1996	FY 1997
Sales & Use	\$21,006,680	\$ 7,816,007
Corporation Business	11,469,233	3,182,249
Business Personal Prop.	1,281	101,317
Litter	557,703	1,121,778
Gross Income	0	8,139
Total Tax	\$33,034,897	\$12,229,490
Penalty and Interest	12,971,669	4,812,635
Total Assessments	\$46,006,566	\$17,042,125

The average assessments for each auditor for these two fiscal years were \$2,147,832 and \$917,230 respectively. Collections versus assessments on closed audits since inception of the Branch through the end of this fiscal year is 76.3%.

### Miscellaneous Tax

The Branch's functions have been consolidated into the Audit Services Branch.

## Audit Services

The Audit Services Branch is responsible to support every aspect of the Division's Audit Activity. In addition to that rather large task they also serve as the Division's resource for miscellaneous and excise tax refunds, adjustments and reconciliations, public utility tax administration, and the Division's word processing center. It is fair to say that auditors can make productive use of their time because the specially skilled auditors and technicians in Audit Services take all of the non-revenue tasks out of the Field and Office Audit staffs' hands.

Beginning with audit selection, trained auditors and technicians manipulate and compare reporting histories, research outside documents and plan for third party information to select the most effective audit targets.

To that end the Branch processes large amounts of raw data from diverse locations such as Division databases, taxpayer files and records, I.R.S. tapes, and U.S. Customs Service tapes.

In order to continue to increase the auditors' efficiency, the Branch was responsible for the creation and is responsible for the continued development and maintenance of SmartPapers. SmartPapers are the primary computer tool of auditors and the continued work of Audit Services provides increasing capabilities all the time. In addition to the research and development task, maintenance of the field auditors' laptops, desktop computers and peripheral equipment occupy increasing time and effort as new technologies provide increased capabilities, and the need for immediate information creates usage of additional information links.

Finally, Audit Services provides audit billing capabilities for the entire activity. This process includes the creation of the bill adjustment and segregation of existing deficiencies and delinquencies and the appropriate disposition of the audit file with the application of payment, transfer for an administrative hearing or by securing the liability for future collection actions.

Independently this Branch handles the administrative functions for Motor Fuels Tax, Petroleum Products Gross Receipts Tax, Tobacco Taxes and Alcoholic Beverage Taxes, which are too small to be totally mainstreamed. In this respect they issue refunds, reconcile accounts, license, determine proper bonding, provide taxpayer service and generally satisfy the needs of senior management and State government as it relates to the numerous minor State taxes.

This Branch was also responsible for the creation and now maintains a Local Area Network for Audit Activity relied on by both the Gross Income Tax Branch and the highly successful Nexus team. It is fair to say that these audit work forces would be largely ineffective without the LAN capabilities maintained by this Branch.

Certainly of great importance is the work of the Public Utility Tax Unit which spent many months working with the Treasurer's Office to accomplish the conversion of the State's taxation of energy. This group administered the Gross Receipts and Franchise Tax in all aspects and will be heavily involved in the oversight of the changes affecting this industry.

Finally, the Word Processing Section provides the capability to produce massive quantities of production for any area of the Division using centralized resources that can take peak needs away from individuals not capable of such volume. Their services have allowed the Division to reduce its clerical work force and still produce high quality documents in short turnaround times in great volume. The true potential of this group is still being recognized as we pursue new sources of work.

## OFFICE AUDIT

The Office Audit Activity is comprised of several different branches.

These Branches of operation are Office Audit Branch, Gross Income Tax Audit Branch and Transfer Inheritance and Estate Tax Branch. The primary responsibilities of this Activity are to ensure tax compliance through the auditing of tax returns filed and the examination of information provided at the Division of Taxation offices located in Trenton, New Jersey.

### Office Audit

The primary responsibility of this Branch is the audit and refund of the Corporation Business Tax. Other taxes audited include the Financial Business Tax, Insurance Premiums Tax, Ocean Marine Tax, Retaliatory Tax, Savings Institution Tax, various Sanitary Landfill Taxes, Spill Compensation and Control Tax and the Corporation Income Tax. Additional responsibilities include the examination of corporate taxpayers in order to issue Tax Lien Certificates, Tax Clearance Certificates, and Certificates of Reinstatement of Corporate Charter.

Changes occurring during the past year include the merging of one of the regular audit groups into the other four, the splitting of the Corporate Service Audit Group into two separate groups, and the transfer of the Nexus Audit Group from the Audit Service Branch. The group has the responsibility to discover and examine out-of-State entities to determine whether they have an unreported tax filing and paying responsibility. Last fiscal year the group had assessments in excess of \$56 million.

During fiscal year 1997, the ten audit groups of the Branch generated assessments, including penalty and interest, in excess of \$108 million, while issuing 23,205 tax certificates of various types. The distribution of assessments by tax is as follows:

<b>Tax</b>	<b>Amount</b>
Corporation Business	\$ 83,886,087
Sales & Use	1,776,630
Gross Income	293,913
Miscellaneous Others	5,723,744
Total Tax	\$ 91,680,374
Penalty and Interest	17,271,967
Total Assessments	\$108,952,341

## Gross Income Tax Audit

The Gross Income Tax Audit Branch's responsibility is the auditing of gross income tax returns filed with the Division, using a variety of criteria developed within the Branch utilizing information from the Internal Revenue Service, neighboring states, and other New Jersey agencies where applicable.

The Branch also pursues delinquent resident and nonresident taxpayers separately and in joint projects with other Division branches and the Internal Revenue Service.

Some categories of individuals and/or businesses the Branch is currently focusing on are entertainers, professional athletes, partnerships and their partners, S corporations and related shareholders, fiduciaries and their beneficiaries, and all employers withholding gross income tax.

During fiscal year 1997, the six audit teams of the Gross Income Tax Audit Branch completed the following cases using computer-assisted and manual audit techniques:

	<b>FY 1997</b>
Cases Reviewed	43,361
No. of Assessments	10,497
Amount Assessed	\$26,902,870
No. of Collections	8,577
Amount Collected	\$18,350,814

## Transfer Inheritance and Estate Tax

The Transfer Inheritance and Estate Tax Branch is responsible for the administration of New Jersey Transfer Inheritance Tax and the New Jersey Estate Tax, two separate and distinct taxes.

During the fiscal year, 7,471 assessments, including 541 nonresident, and 1,306 estate tax assessments were made. The Branch processed 56,084 self-executing waivers (Form L-8) and 6,688 requests for real estate waivers (Form L-9). In addition to the formal waivers generated through use of Form L-9, the Branch issued 50,560 additional waivers.

Revenue in the amount of \$325,243,841 was collected. Approximately 37 percent (\$121,951,293) of this amount was attributable to the New Jersey Estate Tax.

## TECHNICAL SERVICES

### Conference and Appeals

The Conference and Appeals Branch handles taxpayer complaints and protests and conducts informal administrative hearings.

All incoming protests are reviewed by the Branch's Problem Resolution Section for compliance with the statutory and regulatory provisions for Protests and Appeals. During the fiscal year the Problem Resolution Section forwarded to the Conference Section backlog 1,007 cases, 59.8% of the total incoming protests.

The Risk Management Section determines whether the State is at risk relative to the collection of the protested assessment. Taxpayers may be asked either to pay the outstanding assessment, furnish a surety bond, or furnish a letter of credit to stay collection, including the filing of a Certificate of Debt and a "Finding of Responsible Person."

The Conference Section provides informal administrative hearings. Cases are assigned to conferees for informal administrative hearings. After the hearing process, conferees issue the Division's Final Determinations on assessments, notices of individual responsibility for trust fund taxes, denials of refunds, as well as such non-monetary issues as nexus, subjectivity determinations and the denial of claims by organizations claiming exempt status.

Final Determinations are appealable to the Tax Court of New Jersey. The Appeals Section of the Branch tracks and manages these cases, acting as the Division's liaison with the Deputy Attorney General assigned to defend the Division of Taxation. During the fiscal year, 118 new appeals were filed and 65 cases were concluded.

Eighty-nine percent (89%) of all cases received into the Conference Section backlog were generated by Audit Activity. Of the cases received into the Conference Section backlog, fifty-two percent (52%) were generated by Field Audit and twenty-eight percent (28%) were generated by Gross Income Tax Audit.

This fiscal year, the Conference and Appeals Branch finalized 1,405 cases and collected over \$4.1 million. On average, less than 9% of the cases protested to the Conference and Appeals Branch proceed to the Tax Court of New Jersey.

### Tax Services

The Tax Services Branch drafts rules, regulations and notices for publication in the *New Jersey Register* and the *New Jersey State Tax News*; acts as the Division liaison with the Office of the Attorney General on technical and regulatory issues; provides administrative and enforcement advice to Division management and staff on all tax laws under the jurisdiction of the Division; drafts proposed legislation; reviews legislation and prepares comments; provides technical assistance in the implementation of new tax laws; and analyzes, researches and responds to all taxpayers' inquiries and requests for technical advice or letter rulings.

As a subunit of the Tax Services Branch, the Exempt Organization Section processes and makes determinations on applications for Sales and Use Tax Exempt Organization Permits. For fiscal year 1997, the Exempt Organization Section mailed over 1,000 applications, ruled on over 850 completed applications and issued over 100 denials of exempt organization status.

The Branch is charged with the responsibility of coordinating the processing of all Division rules and notices. The Administrative Practice Officer within the Branch maintains contact with the Office of Administrative Law in order to oversee the promulgation of Division rules and their official publication in the *New Jersey Register*. A total of 21 rules and notices were proposed, adopted and published in fiscal year 1997.

In fiscal year 1997, the Branch researched and wrote over 2,000 taxpayer advice letters and answered approximately 13,000 telephone inquiries on technical matters.

### Taxpayer Services

Taxpayer Services is responsible for encouraging voluntary compliance by providing taxpayers the information and assistance they need to meet their New Jersey tax responsibilities. As a result of modern technology, two out of three taxpayers used one or more of the following automated services during the year:

- **NJ TeleFile Program** is the latest use of technology to improve our services to taxpayers. During the 1996 tax season, over 144,000 taxpayers filed their returns by NJ TeleFile and had their refund checks mailed within two weeks. This innovative filing method saved the State \$250,000 in processing costs and greatly reduced data storage costs.
- **Automated Tax Information System** offers taxpayers four types of assistance from a Touch-tone phone:

*Automated Refund Inquiry System* provides information about current year tax refunds (used by 366,000 taxpayers in 1997)

*Homestead Rebate InfoLine* provides information on the status of current year homestead rebates (used by 176,000 taxpayers in 1997)

*New Jersey TaxTalk* offers information on 70 different topics (used by 82,000 taxpayers in 1997)

*Forms Request System* allows callers to order tax forms and publications (used by 120,000 taxpayers in 1997)

- **NJ TaxFax** service makes State income tax forms and other technical information available to fax machine users. During 1997, 50,000 forms were sent to taxpayers via TaxFax.

Taxpayer Services Activity includes the following:

**Tax Hotline** has a maximum of 60 agents who answer questions on all taxes and programs administered by the Division and assist in the resolution of account related problems. This service provides immediate assistance and in many cases, eliminates the need for taxpayers to correspond with the Division.

**Office of Communication** is responsible for tax publications including the instructions for individual income tax returns, technical bulletins, brochures and notices, and the quarterly newsletter for tax practitioners, the *New Jersey State Tax News*. The Office of Communication also is responsible for preparing replies to general taxpayer correspondence and referrals. One-third of the mail received is e-mail.

**Taxpayer Forms Services** mails out forms in response to taxpayers' requests and also handles bulk mailing for special projects. During 1997, 430,000 items were mailed.

- Taxpayer Services statistics:

#### **FY 1997**

Phone calls	1.7 million
Correspondence	40,000
On-line Adjustments	92,000
Revenue Collected	\$3,727,016

- Major publications included production of the *Annual Report*, *Package NJX*, a number of new business-related About New Jersey Taxes bulletins and a booklet of frequently asked questions on the property tax deduction/credit.

- NJ TeleFile program will be expanded during the next fiscal year to allow over 1.3 million New Jersey residents to file their returns by TeleFile.

## **Technical Education Office**

The Technical Education Office supports Division employees, the taxpaying public and the practitioner community through a variety of efforts. Responsible for all internal technical training and staff development initiatives, the TEO provides technical support for employees on new and emerging technologies to increase employee efficiency. The Technical Education Office administers and delivers training programs on Integrity Awareness, Economic Reality and many other topics.

Additionally, the TEO administers the Division's Speakers Bureau and the Small Business Workshop series. The TEO participates in corporate seminars to promote business activity in New Jersey and supports voluntary tax compliance through the VITA (Voluntary Income Tax Assistance) and TCE (Tax Counseling for the Elderly) programs.

The TEO has responsibility for the Division's Home Page. Since its inception in 1996, the Home Page has expanded to provide information on a wealth of programs and initiatives. Forms and publications can be accessed on the page as well as instructions and updates on most Division efforts. Interesting Home Page statistics include:

- 606,447 Total "hits" on Home Page
- 262,276 Requests for forms through the Home Page
- 146,694 Requests for publications through the Home Page
- 118,458 Visits to the FAQ (Frequently Asked Questions) site

The Division's Home Page can be accessed at:

<http://www.state.nj.us/treasury/taxation/>



## COMPLIANCE

### Special Procedures

The Special Procedures Branch is primarily responsible for the collection of overdue tax liabilities. During fiscal year 1997 the Branch collected \$26,694,722. The specific functions of Special Procedures are as follows:

**Attorney General Referrals.** Whenever the Division has exhausted its collection remedies without success the case may be referred to the Office of the Attorney General for additional collection actions. Such actions may include domesticating the Division's lien in another state wherein assets of a debtor may have been located and/or the instituting of wage garnishment proceedings.

**Bankruptcy.** The primary function of the Bankruptcy Section is to effectuate collection of delinquent taxes from debtors who have filed for protection under Federal or State Insolvency Statutes, by submitting Proofs of Claims to the appropriate courts of jurisdiction.

**Bulk Sales.** The Bulk Sales Section is responsible for examining tax records of each business which disposes of its assets, either by sales, transfer or assignment, other than in the normal course of business. This area also issues Tax Clearance Certificates for Transfer of Retail Alcoholic Beverage Licenses.

**Closing Agreements.** Under provisions of the State Tax Uniform Procedure Law applications for compromise/settlement of tax debts are processed.

**Judgments.** The Judgment Section collects overdue liabilities from taxpayers who neglected or refused to pay taxes and/or file returns through normal channels. The primary collection vehicle is the Certificate of Debt which is filed with the Clerk of the New Jersey Superior Court. A Certificate of Debt has the same force and effect as a Docketed Judgment adjudicated in any court of law.

### Compliance Services

The Compliance Services Branch (formerly Office Collections) is a multi-functional Branch that provides services to the Division, to the tax paying public and to other State agencies. Some of the specific functions are as follows:

**Compliance Services, Data Group.** This section is primarily responsible for planning, designing and implementing the new programs and projects for the Compliance Activity with emphasis on maintenance, revision and diagnosis in the area of database management, data

processing and office automation. The automation of the Casual Sales program is a prime example of the work of this unit. This group also prepared and conducted training workshops on the use of laptop computers for Field personnel, designed a comprehensive Inventory Reporting system for our Delinquency Unit, and on a continuing basis provides database assistance to all Compliance Branches as well as the Director's office and his staff.

**ABC Clearance Section.** This section is responsible for issuing the Alcoholic Beverage Retail Liquor License Clearance Certificate to holders of those licenses prior to their annual license renewal. Phase II of a three year phase-in was completed. Over 7,300 licenses were reviewed. Outstanding sales tax was collected and clearance certificates issued on 7,009 licensees.

**Delinquency Section.** This section sends notices to taxpayers and is responsible for securing delinquent tax returns and payments in order to bring taxpayers in compliance with regulatory filing provisions. With the Personal Income Tax Delinquency program that was implemented this year the Delinquency Section has a delinquency program for 14 of the 26 taxes administered by the Division of Taxation.

**Deferred Payment Section.** This section provides a framework for taxpayers to repay deficient taxes utilizing a formal payment plan. This Activity was recently updated to better serve taxpayer's needs and to allow more sophisticated monitoring of payment plans.

**Casual Sales Section.** This section coordinates its efforts with the Division of Motor Vehicles to verify and collect the appropriate sales tax on motor vehicles, boats and aircraft. The culmination of this effort is the notification to taxpayers when discrepancies arise in the sales tax due and the amount paid. Purchases of motor vehicles by out-of-State taxpayers are also examined.

This Branch is also responsible for the **Set-Off Program** which holds payments due State vendors and applies the payments toward deficient taxes; **SOIL**, Set-Off of Individual Liability, a program designed to withhold personal gross income tax refunds and homestead rebates from taxpayers who have outstanding tax debts; **Lottery**, this unit must verify to the New Jersey Lottery Commission that taxes of prospective lottery machine agents are current; and **CATCH**, where Citizens Against Tax Cheats can send referrals to the Division reporting possible non-compliance issues.

In addition, this Branch provided technical support for two contracts between the Division and PAYCO, General American Credits, a private collection agency contracted

to pursue delinquent and deficient taxes for the Division of Taxation.

## Taxpayer Accounting

The Taxpayer Accounting Branch issues bills for underpayments of tax, penalty and interest, reviews bills and refund or credit requests, and responds to taxpayer inquiries regarding the status of their accounts. The Branch is comprised of the Correspondence and Review Sections for personal income tax, a Business Tax Section, and Support Sections for both the income and business taxes. As a special service, Taxpayer Accounting also provides a Tax Practitioner Hotline where practitioners can call for assistance in resolving client problems that they have been unable to resolve through normal channels.

The Taxpayer Accounting Branch answered nearly 118,000 pieces of correspondence and 31,000 phone calls, reviewed about 122,000 bills and 55,000 refunds, adjusted, updated, or corrected approximately 215,000 accounts, and collected more than \$6.3 million.

## Investigations

The Investigations Branch contacts new and existing businesses to ensure compliance with New Jersey's tax laws, and pursues collection of delinquent and deficient taxes from businesses and individuals. When necessary, Certificates of Debt are recorded and followed by levy, seizure and sale by auction of business and personal assets. Some violations are prosecuted in municipal court.

In fiscal year 1997, Investigations conducted 174 seizures of business and/or personal assets based on outstanding Certificates of Debt. One hundred eight (108) of the seizures involved liquor licenses. Twenty-seven auctions were necessary.

Investigations has continued to utilize their statutory authority to make an immediate, on-site assessment of tax due (referred to as a "jeopardy assessment"). The targets are primarily out-of-State transient vendors who failed to register their business, to collect and remit State taxes, such as sales tax, or to file tax returns. Failure to satisfy the jeopardy assessment results in immediate seizure of assets and vehicles.

## Highlights

- **Certificates of Debt Filed.** In conjunction with 6,007 cases, 12,559 Certificates of Debt were filed in the Superior Court totaling \$122,988,813.
- **Cases Referred to Attorney General for Collection.** One thousand eight hundred forty-five (1,845) cases

were referred to the Office of the Attorney General for collection actions. Collections of \$3,360,179 were received on A.G. referral cases.

- **Closing Agreements Approved.** Thirteen (13) Closing Agreements were approved, 74 requests were denied and another 57 denials resulted in full payment with statutory abatement. Collections on Closing Agreement cases totaled \$1,689,531.
- **Bankruptcy Activity.** The Bankruptcy Section filed 1,026 Proofs of Claim for \$30,445,936; 148 Amended Proofs of Claim for \$7,378,579 and 149 Administrative Proofs of Claim totaling \$6,743,167. Collections on insolvency matters totaled \$5,310,546.
- **Bulk Sales Activity.** The Bulk Sales Section received 3,363 Notices of Sale during the fiscal year. Collections for the year were \$9,470,226 which represented an increase of 44% over the previous year.  
  
Seven hundred forty-four (744), or 22%, of these notices received pertained to transfers of Retail Liquor Licenses. Project personnel recommended 92 cases for audit. In all, 146 audits were completed resulting in \$5,142,668 in assessments, an average of \$35,224 per taxpayer. Collections of \$4,751,160 were realized from this project. Of this amount, \$283,924 were as a result of discovery of unreported transfers of liquor licenses.
- **Canvassing/Sweep Activity.** Field Investigators contacted almost 22,000 business locations as a result of increased efforts to seek out non-compliant New Jersey vendors as well as transient out-of-State vendors. Investigators registered a total of 3,070 new taxpayers as a direct result of this activity.
- **Jeopardy Assessments/Seizures.** Field Investigators levied 956 jeopardy assessments, executed 33 jeopardy seizures and collected \$1,090,887 as a result of these actions.
- **Alcoholic Beverage Project.** Compliance ABC Project collections for fiscal year ending June 1997 were \$58,788,911.

- **Audit/Compliance Cash Project.** Investigations and Audit are working jointly on a Cash Audit Project focusing on various segments of the cash economy. The cash audit process is enhanced as a result of information provided by investigators throughout the audit.
- **Collections.** Compliance Activity collections for fiscal year 1997 were \$121,168,490. PAYCO collected \$32,716,550.

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## PROPERTY ADMINISTRATION

Property Administration consists of two distinct branches, Local Property and Unclaimed Property. The Local Property Branch, whose activities concern real and certain personal property, is comprised of Policy and Planning Section; Field Assistance and Appraisal; and Railroad Property/Tax Maps Section. The Unclaimed Property Branch, whose activities pertain to intangible personal property and safe deposit box contents, includes the Audit Section and the Operations Section.

### LOCAL PROPERTY

#### Policy and Planning

Policy and Planning Section reviews and prepares comments on proposed legislation concerning property tax issues; reviews and approves reassessment and revaluation programs and contracts; develops procedures for uniform application of senior citizens' and veterans' deductions and certifies the amounts for State reimbursement to local taxing districts; oversees the administration of the Farmland Assessment Act of 1964; in cooperation with Local Property Field Staff and the Attorney General's Office, defends the Table of Equalized Valuations; coordinates bi-annual Tax Assessors' Certification Exams; prepares written guidelines and materials on various property tax programs and statutes for use by assessors and county tax board members; responds to general taxpayer inquiries and correspondence and legislative referrals regarding property tax matters.

#### Field Assistance and Appraisal

*Field Assistance Unit* provides direct assistance to 567 municipal tax assessors' offices and 21 county tax boards in solving everyday administrative problems. Field Staff prescreens and investigates SR-1A's for sales ratio purposes; gathers evidence for defense of Table of Equalized Valuations appeals; conducts audits of senior citizens' and veterans' deductions granted and realty transfer fees paid; collects material and labor cost data for development of improved assessment standards; and assists new assessors in the implementation of property tax law.

*Appraisal Unit* assists local tax assessors with the appraisal of special purpose, unusual and State-owned property; assists the Transfer Inheritance Tax Bureau with appraisals for inheritance tax purposes; maintains the Real Property Appraisal Manual provided for use by New Jersey assessors.

Other major activities are:

*Sales Ratio* oversees the Assessment-Sales Ratio Program and develops an annual Table of Equalized Valuations from the program data. The Table is used to calculate and distribute the State School Aid; apportion county and regional school district taxes; and measure debt limits for local governments. It shows the average ratio of assessed value to true value of real estate throughout the State.

*Mod IV Data Processing* provides technical assistance to all municipal taxing districts utilizing the State developed data processing system Mod IV to produce and maintain local assessment records.

#### Railroad Property/Tax Maps

*Railroad Property Unit* classifies, assesses and taxes railroad properties; assesses and computes railroad franchise tax; and determines railroad replacement revenues for municipalities in which railroad property is located.

*Tax Maps Unit* reviews and approves municipal tax maps for conformance to current specifications and as required for district revaluations.

### UNCLAIMED PROPERTY

Unclaimed property is generally responsible for maintaining more than 1 million records of unclaimed property in the protective custody of the State Treasurer. This program is defined in N.J.S.A. 46-30B, *et seq.* Any "Holder" of property belonging to another is required to turn that property over to the State Treasurer or his delegate when it is presumed to be abandoned. Property is defined as moneys, deposits, refunds, stocks, insurance payments, etc.

#### Audit

Audit Section conducts audits of selected holders, usually corporate trust operations for unclaimed dividends and securities, for levels of compliance in reporting; contracts with two audit firms for out-of-State holders.

#### Operations

*Holder Reporting Unit* has accounted for more than \$1 billion since its inception in 1947. This figure is increasing by \$50 million per year and will continue at that level because of efforts to ensure holder compliance.

*Claims Processing Unit* validates a claim for property held by us, and processes payment, with interest. Each year an average of 20,000 claims are received.

*Intestate Estates Unit* supervises and oversees the administration of intestate (no will, no apparent heir) estates through the court appointment of an administrator. If the search for heirs is unsuccessful, the administrator turns over the proceeds to the State, minus estate expenses and statutory fees. This figure averages \$2.5 million per year.

## Highlights

- 117 applications for the Tax Assessors' Exams were filed in 1997.
- 16 revaluation programs were implemented in 1997 at an average cost of \$39.70 per line item and a total cost of \$2,079,548. There were 17 reassessment programs implemented in 1997.
- \$103,040,719 in Realty Transfer Fees was generated with \$51,752,946 deposited into the General Fund and \$22,902,196 credited to the Neighborhood Preservation Nonlapsing Revolving Fund for fiscal year 1997.
- Unclaimed Property receives approximately \$40–50 million in assets yearly.
- Fiscal year 1997 value of securities portfolio is approximately \$90 million.

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## OFFICE OF TECHNICAL SUPPORT

The Office of Technical Support acts as a liaison between the Office of Telecommunications and Information Systems (OTIS), other State and Federal agencies, and the end users of data processing resources within Taxation, recommends and evaluates new technological concepts for the Division and aids in the automated and manual systems design required by new legislation. Support of these systems includes the use of programming like facilities such as FDF-PC, DCF, NOW, Natural and TSO. The Office of Technical Support has the general responsibility for the design and specification of all New Jersey tax forms, site inspection of prospective vendors and overall form quality assurance. In addition, the branch has responsibility for telecommunications, including the Wide Area Network (WAN) and the fiber optic equipment, supplies technical support, performs special project work, provides numerous management information reports, and maintains the TAXNET Help Desk.

The TAXNET Help Desk assists Division personnel to better utilize the Division's data systems, provides a vehicle for the identification and resolution of system problems and performs system table and file maintenance. During 1997, the TAXNET Help Desk answered 4,856 telephone calls and completed 1,501 problem notification forms and 2,487 employee changes. In addition, 1,526 Telecommunication Request/Problem Detail Reports involving troubleshooting, removing and installing of telephone devices or other telecommunication equipment were completed.

The Office of Technical Support reviews data processing requests for technical soundness and overall Division desirability. Priorities for these requests are then set by the Small Projects Prioritization Committee (SPPC). During 1997, a total of 155 such requests were evaluated.

This Branch continues to maintain various micro-based systems supporting a variety of applications throughout the Division. Included in this group are systems for the administration of Correspondence Tracking, Attorney Fee collection, and Fixed Asset Inventory.

The Office of Technical Support participated in the change and design of many systems due to legislative and/or Division initiatives. These include:

- Completion of systemic modifications required by legislation to provide for a property tax deduction on

the Gross Income tax return for homeowners and tenants.

- Continued implementation of legislation accelerating payment requirements for Employer taxpayers and allowing setoffs against payments to contracted State vendors for State tax debt owed.
- Developing an in-house claims processing system to validate claims for unclaimed property held by the State Treasurer and generate payments and notifications.
- Expansion of the use of third-party vendors and matching programs with other agencies such as New York State and the IRS to assist in collection efforts of known and unknown delinquent taxpayers.
- Continued conversion of the Division's printing applications to laser generated output including billing and delinquency notices for the business taxes.
- Implementing a security insert for the various gross income tax packets to conceal the taxpayer's social security number and provide each taxpayer with a payment voucher and extension request for processing through remittance processors.
- Continuing to assist with expanding the use of the new image technology to other tax processing applications such as Corporation Business Tax returns.
- Commencing Network projects including the Barrack Street building rewiring, server hardware and software upgrade, remote PC connection to the network, Internet connectivity and remote connection for out-of-State offices.
- Initiating program modifications to ensure the Division's mainframe systems are year 2000 compliant and continuing to assess the impact of the year 2000 on its PC based operations.
- Implementing a pilot program to accept sales tax quarterly returns through the Internet.
- Initiating a PC based program for inputting SR-1A documents at the county level and eliminating the need for data entry by the Division.
- Updating the Division's Taxpayer Registration File with addresses from the United States Postal Service National Change of Address database as mandated by the USPS to maintain postal discounts for large mailings.

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## CHIEF OF STAFF

The Office of the Chief of Staff is responsible for representing the Division of Taxation throughout State government as well as supplying Division wide support in the areas of Management Services, Disclosure, Fiscal matters, Personnel matters and Labor Relations.

### Management Services

The Management Services activity encompasses the responsibility of providing support in the following areas:

**Facilities Management.** Responsible for providing building maintenance and management services for 11 office buildings located throughout New Jersey, as well as coordinating maintenance and management services for the Division's out-of-State locations. Facilities Management also has the responsibility for managing and maintaining the Division's property, equipment inventory and distribution of supplies to the entire Division.

**Mail Services.** Provides pickup and delivery service of mail for the entire Division, including field offices. This office processes approximately 13 to 14 million pieces of mail annually.

**Records Management.** Responsible for the entire Division's records management and storage. Maintains a records placement and tracking system that enables Division personnel to retrieve documents and files quickly and efficiently.

### Disclosure

The Disclosure function entails many administrative duties, including recommendation and implementation of exchange agreements with other agencies and responses to internal and external requests for tax records. Some of the agencies frequently dealt with include the Internal Revenue Service, New Jersey State Police, Division of Criminal Justice, Division of Law, Division of State Lottery and the 49 other states through their Departments of Revenue/Taxation. Through the mission of this function the Division of Taxation, as well as other taxing agencies throughout the United States, has been able to locate and identify tax evaders who cross state lines.

## **Fiscal, Personnel and Labor Relations**

The Office of the Chief of Staff works in conjunction with the Department of Treasury's Fiscal Office, Human Resources and Department of Personnel. The objectives are to coordinate, control and maintain all requests for personnel, equipment and budgetary needs and to maintain control over all personnel matters, including disciplinary and grievance actions concerning Division employees.

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## **OFFICE OF LEGISLATIVE ANALYSIS**

The Office of Legislative Analysis is responsible for reviewing all tax bills introduced in the Legislature. It evaluates the potential administrative, fiscal and policy implications of proposals which are scheduled or likely to be scheduled for legislative action; it proposes amendments to insure that a bill can be effectively implemented, prepares Bill Comments and Fiscal Notes, and recommends positions to be taken by the State Treasurer.

In addition, OLA monitors legislative activity, determines when bills affecting the Division are scheduled for committee or house action, and tracks the progress of each bill as it proceeds through the Legislature. It works closely with the Treasurer's Office and, when a bill is enacted into law, it often initiates and participates in the implementation process.

### **Highlights**

- Monitored and tracked 651 bills relating to the Division of Taxation.
- Prepared 170 Legislative Recommendations and Bill Comments.
- Prepared 121 Fiscal Notes.
- Testified before various Assembly and Senate Committees.
- Provided information on New Jersey legislative tax developments to many persons and organizations seeking such information.
- Tax bills were considered at 60 Assembly and 65 Senate Committee Meetings.
- Seventeen bills affecting the Division were signed into law.

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## OFFICE OF CRIMINAL INVESTIGATION

The Office of Criminal Investigation is responsible for the detection and investigation of alleged criminal violations in the State tax code. In addition, the responsibility of internal security and internal control assessments falls within the jurisdiction of this area.

The activities within the Office of Criminal Investigation are:

**Office of Criminal Investigation.** Cases that indicate criminal violations and willful intent to evade the tax laws are developed. Based on the findings of the investigation, recommendations for criminal prosecution are made to the Attorney General's Office or to the county prosecutor. The cases are generated from projects within this activity, referrals from other functions within the Division, participation in joint investigations with prosecutors' offices and other law enforcement agencies, and concerned citizens.

OCI works closely with prosecutors and investigators at all governmental levels. Liaison activities are encouraged, and joint investigations are conducted in cases dealing with economic and financial crimes that have tax compliance consequences. Currently, OCI is also actively involved in cooperative efforts with the Internal Revenue Service, the Federal Bureau of Investigation, the US Attorney's Office, and states within the northeast corridor.

**Cigarette Tax.** Special Agents assigned to OCI have the statutory authority to investigate violations of New Jersey's cigarette tax laws. Investigative resources have been directed towards the sale of unstamped cigarettes, smuggling, and the location of contraband.

**Internal Security Unit.** Handles sensitive matters, including integrity investigations (attempts by outsiders to corrupt Division employees and also allegations that employees have committed ethical or criminal violations), background investigations of prospective employees, and assaults and threats by persons who impede the functions of the Division. The unit also provides training, to enable new employees to recognize possible compromising situations. Examples of cases worked during the fiscal year include attempted bribery of an auditor, theft of checks from the Division mails, various physical threats to employees, and preparation of tax returns in violation of the Treasury Code of Ethics.

### Highlights

- 115 cases were forwarded to prosecutors, 694 information items were evaluated resulting in the initiation of 85 criminal cases. Total of 189 ongoing criminal investigations.
- 168 criminal investigations of cigarette tax violations were initiated. 26 of these cases involved the seizure of contraband cigarettes and the seizure of 2 vehicles. Destroyed 18,906 cartons of confiscated cigarettes valued at \$378,124.
- 558 background investigations and 71 integrity investigations were conducted.